



resource
accounts
2002-2003

(For the year ended
31 March 2003)

The resource accounts must
give a true and fair view of the
state of affairs of the OFT.

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Annual Report

The Office of Fair Trading is an independent competition and consumer protection authority. For government accounting purposes, it is a non-ministerial government department. Until 31 March 2003 the OFT was led by the Director General of Fair Trading (the DGFT) in whom the OFT's statutory powers were vested. On 1 April 2003 the OFT became a body corporate with a Board chaired by the former DGFT.

OFT's Statement of Purpose

The OFT's goal is to make markets work well for consumers. Markets work well when fair-dealing businesses are in open and vigorous competition with each other for custom. When there is effective competition and consumers understand what they are buying and are not misled by deceptive or unfair practices, they have genuine power of choice.

The OFT's activities in pursuit of this goal involve:

- enforcement – of competition and consumer protection rules;
- studies – into how markets are working; and
- communication – to explain and improve awareness and understanding by business and consumers.

Enforcement

The OFT will uproot and deter all forms of anti-competitive behaviour, including cartels and the abuse of market power. The OFT will advise referral to the Competition Commission (CC) of all mergers that might substantially lessen competition and, where appropriate, will refer to the CC markets where competition may not be working well.

The OFT will lead other enforcers in robust application of the rules that protect consumers against unfair trading, taking court action where necessary. The OFT will also take practical steps to encourage self-regulation such as codes of practice.

The OFT will work with its international partners to ensure effective enforcement.

Studies

The OFT will investigate markets proactively to see whether they are working well for consumers. As well as business behaviour, investigations will cover government laws and regulations to ensure a competitive environment for business and consumers. Where appropriate, market studies will lead to enforcement action or to recommendations to government, which will be published.

Communication

The OFT will communicate clearly in order to:

- show how competitive markets that work well are important for consumers, fair dealing businesses and economic performance;
- explain its decisions transparently;
- promote compliance by explaining to businesses what the law is and how the OFT will apply it;
- promote consumer awareness and confidence.

In addition the OFT will:

- co-ordinate effectively with enforcement partners locally, nationally and internationally; and
- advise government on how to achieve the most effective regime for competition and consumers.

Operating and Financial Review

The activities of the OFT are funded by grant in aid provided by Treasury. In 2002-03 the OFT had a gross budget allocation of £51.8m for administration and programme expenditure and £2.4m for capital expenditure. This included funding of £17.5m to meet additional responsibilities set out in the Enterprise Act 2002. During the year the OFT incurred gross expenditure of £44.1m on administration and programme expenditure in pursuit of its objectives as detailed in Schedule 5 – 'Resources by Departmental Aim and Objectives'.

The OFT also invested £2.0m in capital expenditure in the year in respect of furniture, office equipment, IT hardware, software and IT software licences.

The financial statements are fully compliant with the requirements detailed in Financial Reporting Standard (FRS) 17.

The OFT received income of £6.7m in respect of fees and charges levied on external customers in respect of licence fees charged for the administration of the Consumer Credit Act 1974 and fees charged for mergers under the Fair Trading Act 1973. During the year the OFT collected penalties of £5.0m relating to Competition Act 1998 (CA98) infringements. All this income is surrendered to the Consolidated Fund. In addition the OFT received income of £0.6m in rental income from minor occupiers and in respect of Competition Act 1998 notification fees which the OFT retained as appropriation in aid.

Later than expected introduction of the provisions of the Enterprise Act resulted in some expenditure planned in 2002-03 being incurred in 2003-04. In self-regulation and market studies, recruiting new teams with new roles and developing strategies for the first time took longer than anticipated. One of our minor occupiers vacated the building months later than originally agreed and this impacted on the revenue aspects of our refurbishment programme for Fleetbank House.

The net cash requirement variation of £10.1m consists of an overall underspend of £7.5m on administrative expenditure plus an underspend on capital of £0.4m, together with a provision of £2.0m to meet end of lease liabilities.

Competition Enforcement

During the year 1,141 complaint cases (including cartel cases) were opened and over 50 formal investigations were launched. Use of our formal investigatory powers included the conduct of 14 'raids', some covering multiple sites. Outcomes were achieved in 39 competition cases covering 13 CA98 public register decisions, one Article 81 decision, four CA98 appeals, informal resolutions in eight CA98 potential infringement cases, one guidance and twelve outcomes under the Fair Trading Act or special competition regimes. Seven of the decisions were infringements with total penalties of £35.8m imposed. Two of these decisions are currently being appealed to the Competition Appeal Tribunal, therefore the penalties imposed have not been paid to the OFT to date. As in the previous year, our policy of discouraging notifications was also successful, enabling us to focus our resources on the more serious cases of actual or suspected infringement. Only three such notifications were received.

In addition, the OFT examined 318 mergers and merger proposals under the UK merger control regime. 190 of these qualified for investigation under the Fair Trading Act, of which 12 of them resulted in reference to the CC and five resulted in the parties giving undertakings in lieu of a reference. Additionally, a reference was made to the CC under the Water Industry Act 1991.

Consumer Regulation Enforcement

We issued guidance to three sectors – second hand car dealers, health and fitness clubs and private tenancies, consulted on new debt collection guidance and carried out a review of debt management companies' compliance with minimum standards set out in the guidance we issued on debt management in 2001-02.

In individual cases we tackled cases across a wide range of legislation achieving some 690 successful enforcement outcomes. These covered matters as diverse as misleading advertisements, refusing consumer credit licence applications, to preventing misleading claims for interest free options and unfair contract terms. Significant successes were the securing of the first Stop Now Order in the case of Craftsman Kitchens and the first ever cross border case taken in Europe under the Stop Now regulations, against Royal Consulting BV.

We provided training to a large number of trading standards officers in venues across the whole of the UK. The co-ordination mechanisms required under Stop Now have worked well and helped to avoid duplication of enforcement action.

We launched an entirely new two stage codes regime. Four trade associations met the OFT's criteria and thus the first stage in the travel, distance selling, vehicle body repair, and estate agency markets. At the next stage they will seek to demonstrate delivery. Once they have done this they will be approved and can use the new OFT logo.

Markets and Policy Initiatives

During the year four market studies were completed and five new studies launched. We also received two informal super-complaints¹. The completed investigations were: *Extended Warranties for Domestic Electrical Goods*; *Consumer IT Goods and Services*; *The Control of Entry Regulations and Retail Pharmacy Services*; and the *Private Dentistry market*. New studies began into *Taxis*, *Estate Agents* and *Doorstep Selling*, the latter following a super-complaint. Shorter studies were launched into the *Liability Insurance market* and *Payment Systems*. A super-complaint into the *Mail Consolidation market* was received.

We co-ordinated the OFT's work with DTI and Home Office on the Enterprise Act, related statutory instruments and consultation documents and the OFT's published guidance, procedures and training. An OFT team was set up to educate stakeholders on the Enterprise Act. To date, 40 seminars have been given to business, regulators and other relevant groups.

The Regulatory Review team provided 292 responses to requests from other government departments for quick advice on the effects of new legislation on competition, providing detailed advice in the key cases. Close links were developed with policy officials. A review of the team's role and the processes was completed at the end of 2002.

The OFT's Enquiries unit continued to expand its role, increasing to 10 staff led by an experienced call centre manager. Its objective remained to provide quick and detailed advice to the public on consumer and competition concerns.

To improve links with stakeholders, we implemented a national liaison strategy, setting up a series of regular meetings and discussions with over 50 national consumer, trade and regional government groups. Internationally, we maintained close working relationships with the Organisation for Economic Co-operation and Development, World Trade Organisation and United Nations Conference on Trade and Development on a range of competition and consumer issues. We also participated in the work of the International Competition Network (ICN), a global forum for competition authorities and others to share ideas and work towards a common set of principles for competition law enforcement.

¹A super-complaint is a fast-tracked complaint from a designated consumer body that a market is not working well for consumers.

Communications

The press office received nearly 4,500 media calls and issued over 100 press releases and consumer alerts. The DGFT and other officials gave 360 media interviews; and the press office also generated regional press interest through the OFT roadshows.

The Business Information Unit has held seven regional roadshows enhancing the OFT's regional profile. At the same time they met businesses at 13 Business Advice Days. The CA98 talks programme was re-launched together with a new Enterprise Act talks programme. Tracking research has been undertaken to measure the increase in businesses awareness of OFT enforced legislation.

The publicity and marketing team maintained and expanded the portfolio of consumer and business leaflets and produced 22 reports. The OFT's website receives on average over 24,000 visits each week. Five major consumer awareness campaigns were run generating extensive media coverage. On average 130,000 leaflets were despatched every month. A new Consumer Education Strategy has been put out to consultation. The library and information centre dealt with many more enquiries than the previous year and over 5,200 requests for information during the year. A drop-in Learning Resources Centre was established to support staff development.

Annual Report

The OFT is required to present an annual report to Parliament for each financial year. This Resource Account is published for the first time within the Annual Report of the OFT.

Permanent Head of the OFT and its Management Board

John Vickers is the DGFT and took up his post on 1 October 2000. The following members of staff composed the OFT's management board (known as the Operations Management Group) during the year.

| | |
|-----------------------|---|
| Penny Boys | Deputy Director General |
| Caroline Banks | Director of Consumer Regulation Enforcement |
| Margaret Bloom | Director of Competition Enforcement |
| Pat Edwards | Director of Legal |
| David Fisher | Director of Resources and Services |
| Jonathan May | Director of Markets and Policy Initiatives |
| Mike Ricketts | Director of Communications |

Appointment of the Management Board

For the financial year 2002-2003 the Operations Management Group (OMG) was composed entirely of permanent civil servants all of whom were members of the Senior Civil Service. Their appointments were made under the terms of the Civil Service Management Code and the service of each would be terminated under it, if that were to be necessary.

Remuneration Committee

Since 1 April 2002, the OFT has appointed a remuneration committee which determines the salaries paid to Senior Civil Servants within the OFT. During 2002-03 the committee was composed of two independent members and John Vickers.

Board of the OFT

The members of the OFT were appointed by the Secretary of State for Trade and Industry under Schedule 1 to the Enterprise Act 2002. The Chairman is John Vickers who was appointed to that post on 6 January 2003. He will complete his term of appointment on 30 September 2005.

Five other members of the Board were appointed on 21 January 2003, their appointments coming into effect from 1 April 2003. On 1 May 2003, the Secretary of State for Trade and Industry announced the appointment of a further non-executive board member, Mr Allan Asher.

Those board members' terms of appointment are as follows:

| | | |
|--------------------------|---------------|---------------------|
| Allan Asher | Non-executive | until 31 March 2008 |
| Lord Blackwell | Non-executive | until 31 March 2008 |
| Penny Boys | Executive | until 31 March 2008 |
| Christine Farnish | Non-executive | until 31 March 2008 |
| Richard Whish | Non-executive | until 31 March 2007 |
| Rosalind Wright | Non-executive | until 31 March 2007 |

All board members may be appointed for a further term.

Chairman's and Board Members' Remuneration

The Chairman's and non-executive board members remuneration and other terms and conditions of service are determined by the Secretary of State for Trade and Industry. Miss Boys' remuneration is decided within central policy for Civil Service pay.

Corporate Governance and Risk Management

The OFT is committed to ensuring a high standard of corporate governance. For the financial year ending 31 March 2003 an integral part of the OFT's corporate structure was the OMG, chaired by the Deputy Director General, that had clear terms of reference. The OFT's progress in establishing a sound system of internal control, based on risk management processes, is set out in the Statement of Internal Control. Since 1 April 2003 the OFT Board has responsibility for defining strategy and determining resource allocations to ensure the delivery of the OFT's objectives.

Audit Committee

During the financial year ending 31 March 2003 the audit committee comprised three independent members and two members of the management board. It was and is chaired by an independent member. In April 2003, a non-executive board member was appointed to the audit committee in place of one of the members of the management board.

Pension Liabilities

The main pension scheme for employees is the Principal Civil Service Pension Scheme (PCSPS) which is non-contributory and unfunded. Although the PCSPS is a defined benefit scheme, liability for payment of future benefits is a charge to it. Departments, agencies and other bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. There is a separate scheme statement for the PCSPS as a whole.

Directors General of the OFT are not members of the PCSPS but may be pensioned by analogy to that scheme thereby gaining benefits commensurate with their salary and service.

Equal Opportunities Policy (including that for employment of disabled people)

The OFT is an equal opportunity employer. The aim is to be fair to everybody; to ensure that no eligible job applicant or employee receives less favourable treatment on the ground of race, colour, nationality or ethnic or national origins, age, gender, sexual orientation, marital status, disablement, religion or religious affiliation, or is disadvantaged by conditions or requirements which cannot be shown as justifiable. The OFT's policy builds on the Civil Service Code of Practice on Employment of Disabled People and the statutory obligations of employers under the Sex Discrimination Act 1975, the Race Relations Act 1976, the Disability Discrimination Act 1995 and the Race Relations (Amendment) Act 2000.

Learning and Development

During the year the OFT continued to give high priority to training and developing all our staff to enhance their professionalism to support the OFT's objectives.

Employee Consultation

The OFT is committed to informing and consulting with staff. It has continued to develop and improve its intranet pages as well as using electronic mail and regular hardcopy newsletters to ensure that staff have access to a wide range of information, are kept abreast of OFT developments, and given the opportunity to feedback and comment on them. The OFT also operates a Departmental Whitley Council on a regular basis throughout the year.

Creditor Payment, Policy and Performance

The OFT pays all supplier invoices in accordance with the Government's payment performance targets. These require us to pay all invoices not in dispute within 30 days or within the agreed contractual terms. They also require us to pay 100% of invoices, including disputed invoices once the dispute has been settled, on time within these terms. In 2002-03 the OFT paid 94% of invoices within this time span. Payments are only made once they have been properly authorised under the terms of the OFT's scheme of financial delegation. No interest was paid under the Late Payment of Commercial Debt (Interest) Act 1998.

Important events which have occurred since Financial Year End

The consumer provisions of the Enterprise Act commenced on 20 June 2003, including those for mergers, market investigations, super-complaints, consumer enforcement, director's disqualification and the criminal cartel offence.

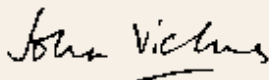
Further details are published on the DTI web site at:

www.dti.gov.uk/enterpriseact/implementation.htm

At year end the OFT had an outstanding payment of a penalty fine imposed under the CA98 for anti-competitive behaviour. Subsequent to the year end, the penalty of approximately £1m was paid to the OFT in July 2003.

Auditors

The Resource Accounts have been audited by the Comptroller and Auditor General.



John Vickers

Chairman and Accounting Officer for the OFT

14 July 2003

Statement of Accounting Officer's Responsibilities

Under Section 5 of the Government Resources and Accounts Act 2000 the OFT is required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources required, held, or disposed of during the year and the use of resources by it during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the OFT, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

The Treasury has appointed the permanent head of the OFT (the Chairman, who was previously Director General of Fair Trading) as its Accounting Officer with the responsibility for preparing its resource accounts and sending them to the Comptroller and Auditor General.

In preparing the resource accounts, the Accounting Officer is required to comply with the Resource Accounting Manual prepared by the Treasury, and in particular to:

- observe the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Resource Accounting Manual, have been followed, and disclose and explain any material departures in the resource accounts;
- prepare the accounts on a going concern basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the department's assets, are set out in the Accounting Officer's Memorandum, issued by the Treasury and published in *Government Accounting*.

Statement of internal control

As Accounting Officer, I am responsible for maintaining a sound system of internal control which supports the achievement of the OFT's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the OFT's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically. The key elements of a system of internal control, and the high level processes for risk management, were in place by 31 March 2003 and up to the date of approval of the annual report and accounts. A plan is in place to embed fully the system of internal control based on risk management processes during 2003-04.

During 2002-03 we addressed the following areas where the Head of Internal Audit (HIA) had advised controls needed strengthening at 31 March 2002.

- Corporate Governance – Independent audit committee
We established in March 2002 an audit committee comprising three independent members and two members of the management board. It was and is chaired by an independent member. In April 2003, a non-executive board member replaced one of the management board members on the committee.
- Risk management
We established a risk management group to encourage the spread of risk management best practice throughout the OFT in October 2002 which reports to the Operations Management Group (OMG), and established a business wide risk register of the key risks which was approved by the OMG in November 2002.
- Financial systems and processes
We restructured our Finance branch and recruited additional qualified and part qualified accountancy staff, although we still place considerable reliance on short term contract staff.

In the OFT, the main processes which we had in place across the year for identifying, evaluating and managing risk are:

- OMG, which meets monthly to consider progress in achieving the OFT's policies, aims and objectives and to monitor the OFT's financial performance;
- budgeting systems by service delivery objectives, with an annual budget that is agreed and reviewed by OMG;
- corporate strategy and annual business plan which is linked to our service delivery agreement;

- regular reports by internal audit, to standards defined in the Government Internal Audit Manual, which include the HIA's independent opinion on the adequacy and effectiveness of the OFT's system of internal control together with recommendations for improvement;
- since late 2002 we have maintained a business-wide risk register and have a continuous process of identifying and managing the risks we face. Responsibility for risk management is cascaded throughout the OFT, with managers and individual members of staff taking responsibility for managing specific risks which could affect the achievement of their objectives and targets;
- at year end, an annual report from each divisional director on the adequacy of their internal control activities.

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control.

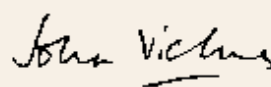
My review of the effectiveness of the system of internal control is informed by the work of the internal auditors including the HIA's annual report, the executive managers within the OFT who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by OMG and the Audit Committee; and in addition I am

informed by assurance statements received from divisional directors which in turn are supported by assurances they have received from their managers and budget holders.

At least once a year the HIA provides me with a report on internal audit activity in the OFT. The annual report for 2002-03 includes the HIA's independent opinion on the adequacy and effectiveness of the system of internal control, and it concluded that the OFT has a sound framework of risk management, governance and control which provided reasonable assurance regarding the effective achievement of the OFT's objectives, except in the area of embedding risk management.

The HIA has advised me that controls need strengthening in this area and, as a consequence, we are establishing a program of risk awareness training and processes to ensure that risk assessments are included in all our operational and support activities. We aim to launch this program in October. We are committed to following the Cabinet Office Risk Improvement programme of action to improve handling of risk and uncertainty and have a Risk Improvement Manager at Senior Civil Service level in line with the Government Programme.



John Vickers

Chairman and Accounting Officer of the OFT

14 July 2003

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements on pages 112 to 128 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 118 to 120.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 107, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Annual Report and Resource Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Annual Report on pages 99 to 106 is not consistent with the financial statements, if the Department has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and Resource Accounts and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 108 to 109 reflects the Department's compliance with Treasury's guidance 'Corporate governance: statement on internal control'. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information of which I am aware from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Department's circumstances, consistently applied and adequately disclosed.

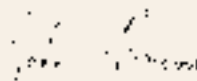
I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- The financial statements give a true and fair view of the state of affairs of the Office of Fair Trading at 31 March 2003, and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and the statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and
- In all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.



John Bourn

Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP
15 July 2003

resource accounts

Schedule 1

Summary of Resources Outturn

for the year ended 31 March 2003

| | 2002-2003 | | | | | | 2001-2002 | |
|--|----------------------|---------------|--------------|----------------------|--------|---------------|--|-----------------------|
| | Estimate | | | Outturn | | | Net total Outturn compared with estimate saving/(excess) | Prior-year Outturn |
| | Gross expenditure | A-in-A | Net Total | Gross expenditure | A-in-A | Net Total | | |
| £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | |
| RfR : Advancing and safeguarding the economic interests of UK consumers | | | | | | | | |
| Total Resources | 51,781 | 761 | 51,020 | 44,129 | 620 | 43,509 | 7,511 | 40,377 |
| Non-operating cost A in A | - | - | - | - | - | - | - | - |
| Net Cash Requirement | - | - | 55,513 | - | - | 45,420 | 10,093 | 32,705 |
| Reconciliation of Resources to Cash Requirement | | | | | | | | |
| | Note | £000 | | £000 | | £000 | £000 | £000 |
| Net Total Resources | | 51,020 | | 43,509 | | 7,511 | 40,377 | |
| Capital: | | | | | | | | |
| Acquisition of fixed assets (tangible and intangible) | 9 | 2,398 | | 1,990 | | 408 | 2,195 | |
| Investments | 1.5 | | | | | | | |
| Non-operating A in A | | | | | | | | |
| Book value of fixed asset disposals | | | | | | | | |
| Accruals adjustments: | | | | | | | | |
| Non-cash items | 3 | (2,779) | | (4,006) | | 1,227 | (9,319) | |
| Changes in working capital other than cash | 10 | 4,874 | | 3,476 | | 1,398 | (5,506) | |
| Changes in creditors falling due after more than one year | | | | | | | | |
| Use of provision | 14 | | | 451 | | (451) | 4,958 | |
| Net Cash Requirement (Schedule 4) | | 55,513 | | 45,420 | | 10,093 | 32,705 | |

Explanation of the variation between Estimate and Outturn (net total resources):

Later than expected introduction of the provisions of the Enterprise Act resulted in some expenditure planned in 2002-03 being incurred in 2003-04. In self-regulation and market studies, recruiting new teams with new roles and developing strategies for the first time took longer than anticipated. One of our minor occupiers vacated the building months later than originally agreed and this impacted on the revenue aspects of our refurbishment programme for Fleetbank House.

Explanation of the variation between Estimate and Outturn (net cash requirement):

The net cash requirement variation of £10.1m consists of an overall underspend of £7.5m on administrative expenditure plus an underspend on capital of £0.4m, together with a provision of £2m to meet end of lease liabilities.

A prior year adjustment has been made, see note 22.

The prior year adjustment has no impact on Schedule 1.

Schedule 1 continued

Analysis of income payable to the Consolidated Fund

In addition to appropriations in aid the following income relates to the OFT and is payable to the Consolidated Fund (cash receipts being shown in italics):

| | 2002-2003 Forecast | | 2002-2003 Outturn | |
|--|--------------------|------------------|-------------------|------------------|
| | Income £000 | Receipts £000 | Income £000 | Receipts £000 |
| Operating income and receipts – excess A-in-A | | | | |
| Non-operating income and receipts – excess A-in-A | | | | |
| Subtotal | | | | |
| Other operating income and receipts not classified as A-in-A | 6,225 | 6,225 | 11,716 | 14,140 |
| Other non-operating income and receipts not classified as A-in-A | | | | |
| Other amounts collectable on behalf of the Consolidated Fund | | | | |
| Refunds arising in 2001/02 not netted off | | | | (66) |
| Total | <u>6,225</u> | <u>6,225</u> | <u>11,716</u> | <u>14,074</u> |

Actual outturn – resources

Request for resource 1: Net total outturn £43,509,186.70. Actual amount of saving compared with Estimate £7,510,813.30.

Actual outturn – cash

Net cash requirement: Outturn net cash requirement £45,419,689.29, which is £10,093,310.71 less than the Estimate.

The actual cash surrenderable to the Consolidated Fund is £5,803,177.43.

Total receipts are £14,074,419.50.

Included within receipts is deferred income of £712,375.00 see note 26.

The notes on pages 118 to 128 form part of these accounts.

resource accounts

Schedule 2

Operating Cost Statement

for the year ended 31 March 2003

| | Note | 2002-2003 | Restated 2001-2002 |
|-------------------------------------|---------|-------------------|-----------------------|
| | | £000 | £000 |
| Administration Costs: | | | |
| <i>Request for Resources 1</i> | | | |
| Staff Costs | 2 | 23,274 | 17,484 |
| Other Administration Costs | 3 | 20,555 | 22,705 |
| | | 43,829 | 40,189 |
| Gross Administration Costs | | 43,829 | 40,189 |
| Operating Income | 4 | (12,336) | (9,166) |
| Net Administration Costs | | 31,493 | 31,023 |
| Programme Costs | | | |
| <i>Request for Resources 1</i> | | | |
| Expenditure | 1.8 & 3 | 300 | 1,145 |
| Income | | | |
| Net Programme Costs/(Income) | | 300 | 1,145 |
| Net Operating Cost | | 6&7 31,793 | 32,168 |
| Net Resource Outturn | | 6&7 43,509 | 40,377 |

Statement of Recognised Gains and Losses for the year ended 31 March 2003

| | | 2002-2003 | 2001-2002 |
|---|----|-----------|-----------|
| | | £000 | £000 |
| Net gain on revaluation of fixed assets | 15 | 444 | 252 |
| Recognised gains for the financial year | | 444 | 252 |
| Prior year adjustment (note 22) | | (7,672) | - |
| Total (loss)/gain since last financial statements | | (7,228) | 252 |

All income and expenditure are derived from continuing operations.
The details and effect of prior period adjustments are disclosed in note 22.

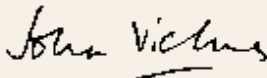
The notes on pages 118 to 128 form part of these accounts.

Schedule 3

Balance Sheet

as at 31 March 2003

| | Note | as at 31 March 2003 | | Restated as at 31 March 2002 | |
|---|------|------------------------|----------------|---------------------------------|----------------|
| | | £000 | £000 | £000 | £000 |
| Fixed Assets | | | | | |
| Tangible assets | 9 | 8,198 | | 8,147 | |
| Intangible assets | 9 | <u>524</u> | | <u>198</u> | |
| | | | 8,722 | | 8,345 |
| Current Assets | | | | | |
| Debtors | 11 | 3,201 | | 5,855 | |
| Cash at bank and in hand | 12 | <u>5,870</u> | | <u>3,844</u> | |
| | | 9,071 | | 9,699 | |
| Creditors (due within one year) | 13 | (10,462) | | (14,567) | |
| Net Current Assets | | | <u>(1,391)</u> | | <u>(4,868)</u> |
| Total Assets less Current Liabilities | | | 7,331 | | 3,477 |
| Provisions for Liabilities and Charges | 14 | (4,316) | | (2,814) | |
| | | | <u>(4,316)</u> | | <u>(2,814)</u> |
| | | | 3,015 | | 663 |
| Taxpayers' Equity | | | | | |
| General Fund | 20 | | 2,506 | | 294 |
| Revaluation reserve | 15 | | <u>509</u> | | <u>369</u> |
| | | | 3,015 | | 663 |



John Vickers
Chairman and Accounting Officer
14 July 2003

The notes on pages 118 to 128 form part of these accounts.

resource accounts

Schedule 4

Cash Flow Statement

for year ended 31 March 2003

| | 2002-2003 | 2001-2002 |
|--|-----------------|----------------|
| | £000 | £000 |
| Net cash outflow from operating activities (A) | (28,834) | (23,884) |
| Capital expenditure and financial investment (B) | (2,434) | (1,751) |
| Payments to the Consolidated Fund | (9,188) | (7,153) |
| Financing (C) | 42,482 | 35,709 |
| Increase in cash in the period | 2,026 | 2,921 |
| | Note | Restated |
| | | £000 |
| | | £000 |
| (A) Reconciliation of operating cost to operating cash flows | | |
| Net operating cost | 31,793 | 32,168 |
| Adjust for non-cash transaction | 3 (4,006) | (9,319) |
| Adjustments for movements in working capital other than cash | 10 596 | (3,923) |
| Adjust for transfer from provision | 14 451 | 4,958 |
| Net cash outflow from operating activities | 28,834 | 23,884 |
| (B) Analysis of capital expenditure and financial investment | | |
| Purchase of tangible fixed assets | 9 2,027 | 1,751 |
| Purchase of intangible fixed assets | 9 407 | |
| Net cash outflow from investing activities | 2,434 | 1,751 |
| (C) Analysis of financing and reconciliation of the net cash requirement | | |
| From the Consolidated Fund (Supply) | 42,482 | 35,709 |
| Net financing | 42,482 | 35,709 |
| (Increase) in cash | (2,026) | (2,921) |
| Net cash flows other than financing | 40,456 | 32,788 |
| Adjust for payments and receipts not related to Supply | | |
| Consolidated Fund Extra Receipts received and not paid over | 5,803 | 854 |
| Consolidated Fund Extra Receipts received relating to the prior year and paid over | (854) | (1,983) |
| Transitional Adjustment | 15 | 1,046 |
| Net cash requirement (Schedule 1) | 45,420 | 32,705 |

Amount of grant actually issued to support the net cash requirement = £ 42,482,000.00

Amount of grant actually issued to support the prior year net cash requirement = £35,709,275.20

The notes on pages 118 to 128 form part of these accounts.

Schedule 5

Resources by Departmental Aim and Objectives

for the year ended 31 March 2003

AIM: The aim of the OFT is to make markets work well for consumers by advancing and safeguarding the economic interests of consumers in the United Kingdom, promoting effective competition, removing trading malpractice, and publishing appropriate guidance.

| Objective | 2002-2003 | | | Restated 2001-2002 | | |
|--|---------------|----------------|---------------|-----------------------|----------------|---------------|
| | Gross £000 | Income £000 | Net £000 | Gross £000 | Income £000 | Net £000 |
| 1. Competition Enforcement. To make sure that competition works well in markets for goods and services so as to make markets more efficient and benefit consumers. | 14,359 | 7,254 | 7,105 | 12,863 | 4,477 | 8,386 |
| 2. Consumer Regulation Enforcement. To help maximise consumer welfare in the longer term, subject to protecting vulnerable consumers' interests by: empowering consumers through information and redress; protecting them by preventing abuse; and promoting competitive and responsive supply. | 12,801 | 4,844 | 7,957 | 14,411 | 4,413 | 9,998 |
| 3. Markets & Policy Initiatives. To lead major market studies. Also, to lead the assessment of the competitive impact of new laws and regulations, the preparation for government policy initiatives and public liaison. | 7,137 | 100 | 7,037 | 2,214 | 43 | 2,171 |
| 4. Communications. To show the importance of competitive markets. To explain decisions transparently. To promote and explain compliance with the law. To promote consumer awareness. | 9,832 | 138 | 9,694 | 11,846 | 233 | 11,613 |
| Net operating costs | <u>44,129</u> | <u>12,336</u> | <u>31,793</u> | <u>41,334</u> | <u>9,166</u> | <u>32,168</u> |

Our methodology for preparing Schedule 5 is set out in accounting policy 1.15.

The notes on pages 118 to 128 form part of these accounts.

Notes to the Resource Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2002-03 Resource Accounting Manual (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the RAM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the OFT for the purpose of giving a true and fair view has been selected. The OFT's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to include the revaluation of fixed assets at their value to the business by reference to their current costs.

1.2 Tangible fixed assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. The minimum level of capitalisation of a tangible fixed asset is £1,000. On initial recognition they are measured at cost including any costs such as installation directly attributable to bringing them into a working condition. All tangible fixed assets are re-analysed to current value each year. Leasehold Improvements are re-analysed each year by the use of the appropriate published indices. Non-property operational assets are revalued to open market value where obtainable, or on the basis of depreciated replacement cost where market value is not obtainable. Published indices appropriate to the category of asset are normally used to estimate value.

1.3 Depreciation

Tangible fixed assets are depreciated at rates calculated to write them down to estimated residual on a straight-line basis on their estimated useful lives. Assets in the course of construction are not depreciated until the asset is brought into use.

Asset lives are normally in the following ranges:

- Fixtures and fittings 9 years;
- Furniture 7 to 10 years;
- IT Hardware 3 to 5 years;
- Software 5 years;
- Leasehold improvements - amortised over the term of the lease.

1.4 Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £1,000 or more is incurred. Except where reliable evidence of current value cannot be readily ascertained, these are re-analysed to current value each year. Software licences are amortised over the shorter of the term of the licence and the useful economic life. The estimated useful life of third party developed software licences is five years.

1.5 Investments

The OFT has no investments.

1.6 Research and development

Expenditure on research and development is not capitalised.

1.7a) Operating income

Operating income is income which relates directly to the operating activities of the department. It principally comprises of rental income from minor occupiers of Fleetbank House, Competition Act penalties imposed and charges to external customers under the Consumer Credit Act 1974 and Fair Trading Act 1973, which are set by the Department of Trade and Industry. It includes not only income appropriated in aid of the Estimate but also income to the Consolidated Fund, which in accordance with RAM is treated as operating income. The department has three sources of income payable to the Consolidated Fund. These are fees for administration of the Consumer Credit Act 1974, fees charged for mergers under the Fair Trading Act 1973 and Competition Act penalties.

1.7b) Competition Act 1998 penalties

From 2002-03 income is recognised once the period for making an appeal in respect of the penalty has expired and no appeal has been made or, where an appeal is made, once it has been determined. Initially, there was uncertainty as to when penalties were likely to be received and in 2001-02 penalties were accounted for on a cash basis. Therefore, this year penalties are accounted for on an accruals basis. This change in treatment is the reason for the prior period adjustment, see note 22.

1.8 Administration and programme expenditure

The Operating Cost Statement is analysed between administration and programme costs. Administration costs reflect the costs of running the department. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against gross administrative costs in determining the outturn against the administrative cost limit, and that operating income which is not. Programme costs relate to non-recurrent legal fees.

1.9 Cost of Capital

A charge, reflecting the cost of capital utilised by the OFT, is included in operating costs. The charge is calculated at the government's standard rate of 6 per cent in real terms on the average carrying amount of all assets less liabilities, except for cash balances on non-interest bearing OPG accounts and on balances with the Consolidated Fund where the interest rate is nil.

Provisions, where the impact of the unwinding of the discount is material, are included within the accounts at net present value. Net present value is estimated by applying a real rate of interest of 6 per cent to reflect the impact of the time value of money on current prices.

1.10 Foreign exchange

Transactions which are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the date of the transaction.

1.11 Pensions

The majority of past and present employees are covered by provisions of the Principal Civil Service Pension Scheme (PCSPS) which is a multi-employer defined benefit scheme and is unfunded. Employee contributions are payable in respect of widower and widows benefits and by employees who are members of the Classic Plus and Premium schemes. Further details of the Classic Plus and Premium schemes are set out in note 2. The OFT recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, the OFT recognises the contributions payable for the year. The OFT is unable to identify its share of the underlying assets and liabilities of this scheme. A full actuarial valuation was carried out at the 31st March 1999 and details can be found in the separate scheme statement of the PCSPS.

There is also a partnership pension available to employees. This is a stakeholder-type arrangement. Further details about this pension are set out in note 2.

Directors General and the Chairman of the OFT are not members of the PCSPS but may be pensioned by analogy to that scheme thereby gaining benefits commensurate with their salary and service, see note 14.

These financial statements are fully compliant with FRS 17.

1.12 Early departure costs

The OFT is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The OFT provides in full for the costs when early retirement for an individual is agreed and takes effect. The department may, in certain circumstances, settle some or all of its liability in advance by making a payment to the Paymaster General's account at the Bank of England for the credit of the Civil Superannuation Vote. The amount is shown net of any such payments.

1.13 Provisions and Contingencies

a) The OFT provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury discounted rate of 6 per cent in real terms. From 2003-04, financing charges in the Operating Cost Statement in respect of end of lease provisions will include adjustments to amortise one year's discount rate and restate liabilities to current price levels. Related contingent liabilities and contingent assets are disclosed in accordance with FRS 12.

b) In addition to contingent liabilities disclosed in accordance with FRS 12, the OFT discloses for Parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. For the OFT, these comprise items over £100,000 (for which there is no specific statutory authority) that do not arise in the normal course of business and which are reported to Parliament by departmental Minute prior to the Department entering into the arrangement.

1.14 Taxation

Value Added Tax (VAT) is accounted for in the accounts, in that amounts are shown net of VAT except:

- irrecoverable VAT is charged to the Operating Cost Statement and included under the heading relevant to the type of expenditure; and
- irrecoverable VAT on the purchase of an asset is included in the capitalised purchase cost of the asset.

The amount due to, or from HM Customs and Excise in respect of VAT is included within Debtors and Creditors within the Balance Sheet.

1.15 Schedule 1 and Schedule 5

The information contained in Schedule 1 and associated notes is based on the Request for Resources information that forms part of the parliamentary approval processes.

Administration costs, programme costs and related receipts were attributed to objectives via a two stage process. Stage one allocates direct costs incurred under each objective. Stage two apportions the costs of support services to objectives as a percentage of direct costs.

Capital is employed exclusively for administration purposes. Its distribution between objectives is therefore not markedly different from the proportion of the related gross administration cost.

1.16 Operating leases

Operating lease rentals are charged to the Operating Cost Statement in equal amounts over the lease term.

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1.17 Comparative amounts

Comparative amounts are re-analysed where necessary to conform to current presentation.

1.18 Derivatives and other financial instruments

The OFT has no borrowings and relies primarily on voted funds from Parliament for its cash requirements and is therefore not exposed to liquidity risk. It also has no material deposits and all material assets and liabilities are denominated in sterling so it is not exposed to interest rate risk or currency risk. See note 25.

2. Staff numbers and costs

A. Staff costs consist of:

| | 2002-2003 | 2001-2002 |
|--|---------------|---------------|
| | Officials | Officials |
| | £000 | £000 |
| Wages and Salaries | 18,240 | 13,693 |
| Social security costs | 1,372 | 1,065 |
| Pension costs | 2,648 | 2,000 |
| Amounts Payable in respect of agency/temporary staff | 1,014 | 726 |
| TOTAL | 23,274 | 17,484 |

During 2002-2003 staff costs rose by 33%. This is largely due to an increase in staff numbers resulting from the increased responsibilities of the OFT in relation to preparations for the implementation of the Enterprise Act 2002.

For 2002-2003, employers' contributions of £2,648,436 were payable to the PCSPS (2001-02 £1,999,663) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same for the next year, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Salary includes gross salary; performance pay or bonuses; overtime; reserved rights to London Weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowances to the extent that it is subject to UK taxation. No employees (including senior management) received benefits in kind.

B. The average number of whole-time equivalent persons employed (including senior management) during the year was as follows:

| | 2002-2003 | 2001-2002 |
|---------------------------------|------------|------------|
| | Number | Number |
| Competition Enforcement | 201 | 186 |
| Consumer Regulation Enforcement | 242 | 227 |
| Markets & Policy Initiatives | 86 | 33 |
| Communications | 63 | 52 |
| TOTAL | 592 | 498 |

Staff figures are calculated by a two-stage process. Firstly by the number of staff directly involved in achieving the operational division's objective and secondly by allocating support division staff numbers proportionally to operating divisions.

C. The salary and pension entitlements of the most senior managers of the Department were as follows:

| | Age | Salary (as defined above) | Real increase in pension at age 60 | Total accrued pension at age 60 as at 31 March 2003 (£K) |
|---|-------|------------------------------|---------------------------------------|---|
| 2002-2003 | Years | £000 | £000 | £000 |
| Mr John Vickers Director General of Fair Trading | 44 | 185-190 | 0.0-2.5 | 5-10 |
| Miss Penny Boys Deputy Director General of Fair Trading | 55 | 100-105 | 2.5-5.0 | 45-50 |
| Miss Caroline Banks Director Consumer Regulation Enforcement Division | 52 | 75-80 | 0.0-2.5 | 35-40 |
| Mrs Margaret Bloom * # Director Competition Enforcement Division | 59 | 95-100 | 2.5-5.0 | 35-40 |
| Miss Pat Edwards Director Legal Division | 58 | 95-100 | 2.5-5.0 | 45-50 |
| Mr David Fisher * # Director Resources and Services Division | 49 | 60-65 | 0.0-2.5 | 5-10 |
| Mr Jonathan May Director Markets & Policy Initiatives Division | 53 | 75-80 | 2.5-5.0 | 25-30 |
| Mr Mike Ricketts Director Communications Division | 55 | 65-70 | 0.0-2.5 | 25-30 |

* opted to join premium

pension details assume maximum commutation of pension for lump sum

| 2001-2002 | Age | Salary | Real increase in pension at age 60 | Total accrued pension at age 60 as at 31 March 2002 (£K) |
|---|-----|---------|---------------------------------------|---|
| Mr John Vickers Director General of Fair Trading | 43 | 180-185 | 0.0-2.5 | 0-5 |
| Miss Penny Boys Deputy Director General of Fair Trading | 54 | 95-100 | 2.5-5.0 | 25-30 |
| Miss Caroline Banks Director Consumer Regulation Enforcement Division | 51 | 75-80 | 0.0-2.5 | 25-30 |
| Mrs Margaret Bloom Director Competition Enforcement Division | 58 | 90-95 | 2.5-5.0 | 35-40 |
| Miss Pat Edwards Director Legal Division | 57 | 90-95 | 0.0-2.5 | 40-45 |
| Mr David Fisher (wef 21 May 2001) Director Resources and Services Division | 48 | 45-50 | 0.0-2.5 | 5-10 |
| Mr Jonathan May (new post 5 Dec 2001) Director Markets & Policy Initiatives Division | 52 | 20-25 | 2.5-5.0 | 20-25 |
| Mr Mike Ricketts (new post 14 May 2001) Director Communications Division | 54 | 50-55 | 0.0-2.5 | 20-25 |

Miss Boys has worked in the Civil Service continuously since September 1965 apart from a period in the private sector between April 1978 and September 1980. The figure of accrued personal pension for 2001-2002 reflects the period since September 1980 whereas the 2002-2003 figure includes her total accrued pension.

Directors General of the OFT are not members of the PCSPS but may be pensioned by analogy to that scheme thereby gaining benefits commensurate with their salary and service. For 2002-2003 payments totalling £78,235 were made to retired Directors General.

D. Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium and classic plus). New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder based arrangement with a significant employer contribution (partnership pension account).

(a) Classic Scheme

Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

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(b) Premium Scheme

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

(c) Classic Plus Scheme

This is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

Pensions payable under classic, premium and classic plus are increased in line with the Retail Prices Index.

(d) Partnership Pension Account

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions, these are matched by the employer up to a limit of 3% (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25% of the fund as a lump sum.

3(i). Other administration costs

| | 2002-2003 | | 2001-2002 | |
|---|-----------|--------|-----------|--------|
| | £000 | £000 | £000 | £000 |
| Rentals under operating leases: | | | | |
| Hire of plant and machines | 126 | | 99 | |
| Other operating leases | 5,225 | | 4,936 | |
| | | 5,351 | | 5,035 |
| Interest paid | | 3 | | |
| Research expenditure | | 283 | | 130 |
| Non-cash items: | | | | |
| Write off of software development costs | | | 921 | |
| Impairment of leasehold improvements | | | 1,724 | |
| Loss on disposal of fixed assets | 10 | | 204 | |
| Depreciation | 1,739 | | 1,491 | |
| Cost of capital charge | 166 | | 279 | |
| Auditor's remuneration and expenses | 44 | | 40 | |
| Devaluation of IT Hardware | 94 | | 559 | |
| Provision: amounts provided for in year | 1,953 | | 4,101 | |
| Total Non-Cash Costs | | 4,006 | | 9,319 |
| Other expenditure | | 10,912 | | 8,221 |
| | | 20,555 | | 22,705 |

The internal and external auditors provided no consultancy services.

3(ii). Programme costs

| | 2002-2003 | 2001-2002 |
|-----------------------------|-----------|-----------|
| | £000 | £000 |
| Total programme expenditure | 300 | 1,145 |

Total programme expenditure of £300k (2001-2002 £1,145k) comprises litigation costs of £285k and expert witnesses costs of £15k.

4. Income and appropriations in aid

| | 2002-2003 | | | 2001-2002 Restated | | |
|--|--------------|--------|--------|--------------------|--------|-------|
| | Appropriated | Not | Total | Appropriated | Not | Total |
| | in Aid | in Aid | | in Aid | in Aid | |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Operating income analysed by classification and activity, is as follows: | | | | | | |
| Administration income: | | | | | | |
| Allowable within admin. Cost limit | 620 | | 620 | 957 | | 957 |
| Fees and charges to external customers | | 11,716 | 11,716 | | 8,209 | 8,209 |
| Fees and charges to other departments | | | | | | |
| | 620 | 11,716 | 12,336 | 957 | 8,209 | 9,166 |

Operating income includes rental income from Minor Occupiers, licence fees for the administration of the Consumer Credit Act 1974, fees charged for mergers under the Fair Trading Act 1973 and Competition Act penalties.

Operating income not Appropriated in Aid (i.e. transferred to the Consolidated Fund) is analysed for resource budget purposes between that which is included in public expenditure and that which is not (see note 6). In 2002-2003, all operating income not classified as A-in-A was within public expenditure.

5. Administration cost limits (see also note 1.8)

The outturn shown against individual administration cost limits is as follows:

| | 2002-2003 | | 2001-2002 | |
|-----------------|-----------|--------|-----------|--------|
| | Outturn | Limits | Outturn | Limits |
| | £000 | £000 | £000 | £000 |
| Total Resources | 44,129 | 51,781 | 41,334 | 43,262 |

6. Reconciliation of net operating cost to control total and net resource outturn

| | 2002-2003 | Restated 2001-2002 |
|-----------------------------|-----------|-----------------------|
| | £000 | £000 |
| Net operating costs | 31,793 | 32,168 |
| Non-A-in-A operating income | 11,716 | 8,209 |
| Net resource outturn | 43,509 | 40,377 |

Net operating cost is the total expenditure and income appearing in the Operating Cost Statement (Schedule 2). Net resource outturn is the total of those elements of expenditure and income that are subject to parliamentary approval and included in the OFT's Supply Estimate. The outturn against the Estimate is shown in the Summary of Resource Outturn (Schedule 1).

7. Analysis of net resource outturn and net operating cost by function

| | 2002-2003 | | | | | Estimate | Net Total Outturn compared to Estimate |
|-----------------------------|-----------|-------|---------|--------|-----------|----------|---|
| | Admin | Other | Current | A-in-A | Net Total | | |
| | £000 | £000 | £000 | £000 | £000 | | |
| Resource Outturn | 44,129 | | | 620 | 43,509 | 51,020 | (7,511) |
| Non-A-in-A operating income | | | | | (11,716) | | |
| Net resource outturn | | | | | 31,793 | | |

The OFT has only one Request for Resources for control purposes and parliamentary approval. Consequently, it is the same as the resource outturn. (For analysis of A-in-A, see note 4)

| | Restated 2001-2002 | | | | | Estimate | Net Total Outturn compared to Estimate |
|-----------------------------|--------------------|-------|---------|--------|-----------|----------|---|
| | Admin | Other | Current | A-in-A | Net Total | | |
| | £000 | £000 | £000 | £000 | £000 | | |
| Resource Outturn | 41,334 | | | 957 | 40,377 | 41,784 | (1,407) |
| Non-A-in-A operating income | | | | | (8,209) | | |
| Net resource outturn | | | | | 32,168 | | |

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8. Analysis of capital expenditure, financial investment and associated A in A

| | Capital expenditure £000 | Loans, etc. £000 | A-in-A £000 | Net total £000 |
|-------------------------|-----------------------------|---------------------|----------------|-------------------|
| Request for resources 1 | 1,990 | | | 1,990 |

9. Fixed assets

Tangible Fixed Assets

| | Information Technology £000 | Building Improvements £000 | Furniture and Fittings £000 | Assets Under Construction £000 | Total £000 |
|---------------------------------|--------------------------------|-------------------------------|--------------------------------|-----------------------------------|---------------|
| Cost or valuation | | | | | |
| At 1 April 2002 | 10,475 | 2,908 | 1,351 | 322 | 15,056 |
| Additions | 1,123 | 73 | 387 | | 1,583 |
| Transfers from AUC | 322 | | | (322) | |
| Disposals | (24) | | (8) | | (32) |
| Revaluation | 402 | 13 | 13 | | 428 |
| Devaluation | (94) | | | | (94) |
| At 31 March 2003 | 12,204 | 2,994 | 1,743 | | 16,941 |
| Depreciation | | | | | |
| At 1 April 2002 | 5,919 | 682 | 308 | | 6,909 |
| Charged in year | 1,168 | 326 | 149 | | 1,643 |
| Disposals | (19) | | (4) | | (23) |
| Depreciation on Indexation | 206 | 4 | 4 | | 214 |
| At 31 March 2003 | 7,274 | 1,012 | 457 | | 8,743 |
| Net book value at 31 March 2003 | 4,930 | 1,982 | 1,286 | | 8,198 |
| Net book value at 31 March 2002 | 4,556 | 2,226 | 1,043 | 322 | 8,147 |

Tangible and intangible fixed asset additions in the Fixed Asset Note total £1,990k however, the fixed asset purchases in the Cash Flow Statement total £2,434k. The difference is represented by capital creditors of £444k at 31 March 2002.

Intangible Fixed Assets

| | Software Licences £000 | Total £000 |
|---------------------------------|---------------------------|---------------|
| Cost or valuation | | |
| At 1 April 2002 | 234 | 234 |
| Additions | 407 | 407 |
| Revaluation | 16 | 16 |
| At 31 March 2003 | 657 | 657 |
| Depreciation | | |
| At 1 April 2002 | 36 | 36 |
| Charged in year | 95 | 95 |
| Depreciation on Indexation | 2 | 2 |
| At 31 March 2003 | 133 | 133 |
| Net book value at 31 March 2003 | 524 | 524 |
| Net book value at 31 March 2002 | 198 | 198 |

10. Movements in working capital other than cash

| | 2002-2003 £000 | Restated 2001-2002 £000 |
|-------------------------------------|-------------------|-------------------------------|
| For Schedule 4: | | |
| (Decrease)/increase in debtors | (2,654) | 3,547 |
| Decrease/(increase) in creditors | 3,250 | (7,470) |
| | 596 | (3,923) |
| Changes in capital creditors | 444 | |
| Increase in CFER deferred income | 209 | |
| Decrease/(increase) in CFER debtors | 2,212 | (2,629) |
| Transitional adjustment | 15 | 1,046 |
| Schedule 1 | 3,476 | (5,506) |

11. Debtors

| | 2002-2003 | Restated 2001-2002 |
|--------------------------------------|-----------|-----------------------|
| | £000 | £000 |
| Amounts falling due within one year: | | |
| Trade debtors | 123 | 18 |
| Deposits and advances | 1,012 | 1,241 |
| Other debtors | 2 | 6 |
| Value Added Tax | 537 | 626 |
| Prepayments and accrued income | 1,527 | 3,964 |
| | 3,201 | 5,855 |

Included within prepayments and accrued income is £415,000 (2001-02: £2,627,469) that will be due to the Consolidated Fund once the debts are collected.

12. Cash at bank and in hand

| | 2002-2003 | 2001-2002 |
|-----------------------------|-----------|-----------|
| Note | £000 | £000 |
| Balance at 1 April | 3,844 | 923 |
| Net change in cash balances | 2,026 | 2,921 |
| Balance at 31 March | 5,870 | 3,844 |

The Office of HM Paymaster General (OPG) provides a current account banking service. The following balances were held at 31 March:

| | | |
|-----------------|-------|-------|
| Balances at OPG | 5,839 | 3,824 |
| Cash in hand | 31 | 20 |
| | 5,870 | 3,844 |

The balance at 31 March comprises:

| | | |
|---|-----------|-------|
| Amounts issued from the Consolidated Fund for supply but not spent at year end | 67 | 3,005 |
| Consolidated Fund extra receipts received and deferred | 13 712 | 503 |
| Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund | 5,091 | 351 |
| Other (receipts)/payments due to be (received)/paid (from)/to the Consolidated Fund | | 11 |
| Add corporate credit card balances netted off | - | (26) |
| | 5,870 | 3,844 |

13. Creditors: amounts falling due within one year

| | 2002-2003 | Restated 2001-2002 |
|--|-----------|-----------------------|
| | £000 | £000 |
| Trade creditors | 2,576 | 7,718 |
| Other creditors | 22 | 10 |
| Accruals and deferred income | 2,292 | 855 |
| Amounts issued from the consolidated fund for supply but not spent at the year end | 67 | 3005 |
| Consolidated fund extra receipts received and receivable and other due to be paid to the consolidated fund | 5,505 | 2,979 |
| | 10,462 | 14,567 |

Included within accruals and deferred income is £790,375 of deferred income of which £712,000 (2001-2002 £503,250) relates to amounts received for surrender to the Consolidated Fund.

14. Provisions for liabilities and charges (see also notes 1.11 - 1.13)

| | Early retirement commitments | Pensions of former Directors General | Dilapidations Provision | Other Provisions | Total |
|--------------------------------------|------------------------------|--------------------------------------|-------------------------|------------------|-------|
| | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 April 2002 | 478 | 960 | | 1,376 | 2,814 |
| Provided in year | 36 | 130 | 1,956 | | 2,122 |
| Provisions not required written back | | | | (169) | (169) |
| Provisions utilised in the year | (242) | (95) | | (114) | (451) |
| Balance at 31 March 2003 | 272 | 995 | 1,956 | 1,093 | 4,316 |
| Expected timing of cash flows | | | | | |
| Less than one year | 107 | 70 | | 1,093 | 1,270 |
| Between one and five years | 164 | 281 | | | 445 |
| After 5 years | 1 | 644 | 1,956 | | 2,601 |
| | 272 | 995 | 1,956 | 1,093 | 4,316 |

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14. continued

a) The early retirement provision relates to the costs of individuals who have retired early. The OFT meets these costs by paying the required amounts annually from its resources until the individual reaches normal retirement age.

b) The pensions provision is in respect of unfunded pension liabilities which fall to the OFT for the previous Directors General and the current Director General. The financial assumptions used in the calculation of the liability as at 31 March 2003 are as follows:

Inflation assumption of 3.4% pa.

Rate of increase in salaries of 3.4% pa.

Rate of increase for pensions in payment and deferred pensions of 3.4% pa.

Rate used to discount scheme liabilities of 7% pa.

Other amounts to be disclosed in order to understand the change in provision

| | £000 |
|---|-----------|
| Current service cost | 29 |
| Cost of interest | 57 |
| Actuarial loss | 29 |
| Benefits payable | (95) |
| Increase in provision relating to 01/02 | 15 |
| Increase in provision | 35 |

c) The dilapidations provision relates to end of lease liabilities for Fleetbank House. The lease is due to expire in 2009.

d) Other provisions are in respect of claims from third parties.

15. Revaluation Reserve

| | 2002-2003 | 2001-2002 |
|---|------------|------------|
| | £000 | £000 |
| Balance at 1 April | 369 | 331 |
| Arising on revaluation during the year (net) | 444 | 252 |
| Depreciation on indexation | (216) | (35) |
| Transferred to general fund in respect of realised element of revaluation reserve | (88) | (179) |
| Balance at 31 March | 509 | 369 |

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

16. Capital commitments

| | 2002-2003 | 2001-2002 |
|--|-----------|-----------|
| | £000 | £000 |
| Contracted capital commitments at 31 March 2003 for which no provision has been made | 8 | - |

17. Commitments under operating leases

| | 2002-2003 | | 2001-2002 | |
|--|---------------------------|-------|-----------------------|-------|
| | Leasehold improvements | Other | Land and Buildings | Other |
| | £000 | £000 | £000 | £000 |
| At 31 March 2003 the department was committed to making the following payments during the next year in respect of operating leases expiring: | | | | |
| Within one year | | 18 | 730 | - |
| Between two and five years | | 101 | - | 85 |
| After five years | 4,328 | | 4,328 | 4 |
| | 4,328 | 119 | 5,058 | 89 |

18. Other commitments

The department has entered into non-cancellable contracts (which are not operating leases) totalling £23,867 as at 31 March 2003 (2001-02 £87,977).

19a. Contingent assets and liabilities reported under FRS 12

The OFT considers that there are no additional liabilities beyond those provided for claims, which can be reasonably estimated. (2001-02:£nil).

Since the year end a penalty of £1m relating to an infringement under the 1998 Competition Act has been received. The OFT has not made any further decisions imposing a penalty. Two recent decisions, with a total penalty of £29.5m are currently the subject of appeals to the Competition Appeal Tribunal, which is expected to hand down judgement in both cases during 2003-04.

Competition Act penalties imposed, once all routes of appeal have been exhausted within the UK, are collected by the OFT and passed to the Consolidated Fund as Consolidated Fund Extra Receipts.

19b. Contingent liabilities included for parliamentary reporting and accountability

The OFT has entered into the following unquantifiable contingent liability by offering an indemnity. This is not a contingent liability within the meaning of FRS 12 since the possibility of a transfer of economic benefit in settlement is too remote.

Statutory Indemnity:

On the 11 December 2002 the Department of Trade and Industry issued a personal liability indemnity to the OFT Chairman and Board Members. Parliament approved the Minute which gives the Chairman and all Board Members of the OFT the equivalent indemnity to that given to civil servants under the Civil Service Management code. Therefore the Crown accepted responsibility for the personal civil liabilities, including costs, of the Chairman and other Board Members.

20. Reconciliation of net operating cost to changes in general fund

| | 2002-2003 £000 | Restated 2001-2002 £000 |
|--|-------------------|----------------------------|
| Net operating cost for the year (Schedule 2) | (31,793) | (32,168) |
| Income not appropriated in aid payable to Consolidated Fund | (11,716) | (8,209) |
| | (43,509) | (40,377) |
| Net parliamentary funding | 42,482 | 35,089 |
| Transferred to general fund of realised element of revaluation reserve (note 15) | 88 | 179 |
| Non-cash charges: | | |
| Cost of capital | 166 | 279 |
| Auditors remuneration | 44 | 40 |
| | 210 | 319 |
| CFERs received and paid over | | 318 |
| Adjustment for 2000-2001 rental income | | 608 |
| Amounts due from/(to) the Consolidated Fund in respect of supply | (67) | (3,005) |
| Settlement of previous year creditor for cash unspent | 3,005 | 620 |
| Other movements | 3 | |
| Net increase/(decrease) in general fund | 2,212 | (6,249) |
| General fund at 1 April | 294 | 6,543 |
| General fund at 31 March (Schedule 3) | 2,506 | 294 |

21. Related-party transactions

The OFT collected £0.620m in rent and service charges from Minor Occupiers (the Office of the Immigration Services Commissioner and the Office of Government Commerce) in respect of rent and service charges paid by them to occupy part of the OFT's leasehold building. This income was treated as Appropriation in Aid. The OFT also paid the Office of Government Commerce £400,000 as an inducement to leave the premises, see note 24.

OFT has had a small number of transactions with other government departments and other central government bodies.

None of the board members, key managerial staff or other related parties has undertaken any material transactions with the OFT during the year.

22. Prior Year Adjustment

A prior year adjustment has been made to reflect:

- the correct Consolidated Fund debtor/creditor balances as at 31 March 2002.
- a change in accounting policy to present Competition Act penalties of £2,303,836 on an accruals rather than cash basis, see note 1.7b.

The net effect of the prior year adjustment is to:

| | |
|--|---------|
| Operating Cost Statement | £000 |
| Increase in operating income | 2,304 |
| Balance Sheet | |
| Increase Consolidated Fund Extra Receipt debtors | 2,304 |
| Increase Consolidated Fund Extra Receipt creditors | (2,304) |
| Decrease amounts due from the Consolidated Fund in respect of supply | (4,667) |
| Increase amounts due to the Consolidated Fund in respect of supply | (3,005) |
| General Fund | |
| Decrease net operating cost for the year | (2,304) |
| Increase income not appropriated-in-aid payable to the Consolidated Fund | 2,304 |
| Decrease General Fund closing balance | (7,672) |

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23. Memorandum Trading Accounts

Income from administration of the Consumer Credit Act 1974 and fees for mergers under the Fair Trading Act 1973 is provided solely for Treasury purposes and is not disclosed for the purposes of SSAP 25 segmental reporting. The Memorandum Trading Accounts are a mechanism for determining the extent of cost recovery via fees. The costs and income associated with these activities in 2002-03 are shown below:

| | Total Cost £000 | Total Income £000 | 2001-2002 Net Deficit | |
|---|--------------------|----------------------|--------------------------|---------|
| | | | £000 | £000 |
| Fees for administration of the Consumer Credit Act 1974 | 5,308 | 4,642 | (666) | (1,533) |
| Fees for mergers under Fair Trading Act 1973 | 6,559 | 2,093 | (4,466) | (4,641) |
| Total | 11,867 | 6,735 | (5,132) | (6,174) |

The costs relating to fees for mergers include attributable costs from the Competition Commission and from the Department of Trade and Industry.

24. Losses and special payments

At the start of the year the Office of Government Commerce was a minor occupier in Fleetbank House. In order to accommodate the extra staff required to meet the increased responsibilities under the Enterprise Act 2002 the OFT took temporary accommodation. It was more economical and efficient to pay the Office of Government Commerce a £400,000 inducement to leave the premises. This is included in other expenditure in note 3.

In May 2002, the OFT paid substantial compensation to Neville and Bernard Michaelson, the founders of Colorvision, as compensation for maladministration by the OFT in 1995. The OFT paid £4.73 million after the Parliamentary Ombudsman found there had been serious failings in procedure when the OFT issued the Michaelsons a 'Minded to Revoke' notice under the Consumer Credit Act 1974. The *ex-gratia* settlement was made in general recognition of the losses the Michaelsons have suffered as a result of the OFT's maladministration. The expenditure was recognised in the 2001-02 financial statements as the Ombudsman's decision was made prior to 31 March 2002.

25. Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, the OFT is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The OFT has very limited powers to borrow or invest surplus funds, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the OFT in undertaking its activities. As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

Liquidity risk

The OFT's net revenue resource requirements are financed by resources voted annually by parliament, just as its capital expenditure is. The OFT is not therefore exposed to significant liquidity risks.

Interest-rate risk

As at the 31 March 2003 the OFT's net financial assets, excluding OPG cash balances and Consolidated Fund balances, were subject to the Treasury's rate of 6%.

Financial liabilities

The OFT has the following financial liabilities at 31 March 2003 denominated in Sterling:

Non-discounted provisions for early retirement, former Directors General and claims totalling £2,360k.

Dilapidations provisions discounted by the 6 per cent government rate to their net present value.

The maturity profile of the OFT's financial liabilities at 31 March 2003 was as follows:

| | £000 |
|--|-------|
| In one year or less or on demand | 1,270 |
| In more than one year but not more than two years | 133 |
| In more than two year but not more than five years | 312 |
| In more than five years | 2,601 |
| | 4,316 |

26. Deferred Income

Monies received for which the work had yet to be undertaken at the year end are shown below:

| | 2002-2003 | 2001-2002 |
|---|-----------|-----------|
| | £000 | £000 |
| Fees for administration of the Consumer Credit Act 1974 | 700 | 503 |
| Fees for mergers under Fair Trading Act 1973 | 12 | - |
| Competition Act 1998 fees | 78 | - |
| | 790 | 503 |

These amounts will be recognised as income in the following year when the corresponding work has been carried out.

27. Important events which have occurred since Financial Year End

On 1 April 2003 the OFT became a body corporate with a Board chaired by the former Director General. Members of the Board were appointed by the Secretary of State for Trade and Industry under Schedule 1 of the Enterprise Act 2002.

The remaining competition and consumer provisions of the Enterprise Act commenced on 20 June 2003, including those for mergers, market investigations, super-complaints, consumer enforcement, director's disqualification and the criminal cartel offence.